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Supreme Court of the United States

OCTOBER TERM, 1945

NO. 410

ALPINE MacGREGOR, Petitioner,

v.

WESTINGHOUSE ELECTRIC & MANUFACTURING COMPANY, Respondent.

On Writ of Certiorari to the Supreme Court of the Commonwealth of Pennsylvania.

BRIEF FOR RESPONDENT

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BRIEF FOR RESPONDENT

Counterstatement of the Case

Petitioner, defendant below, while an employee of respondent, Westinghouse, became familiar with the composition and uses of a solder being made, used, and sold by Westinghouse, covered by Jones patent No. 1,651,709, owned by respondent. See Finding 3, R. 159. Upon leaving Westinghouse, MacGregor commenced the manufacture and sale of a solder of substantially the same composition and characteristics. See Finding 4, R. 159. Westinghouse promptly sued MacGregor in the United States District Court at Pittsburgh for infringement of its patent. See Finding 5, R. 159. Instead of defending the suit, MacGregor, then represented by the same counsel that represents him here, sought and obtained the license contract (R. 123) which is the subject matter of this litigation. See R. 91. He paid royalties under the license agreement for four years. Finding 7, R. 159.

MacGregor then put on the market another solder of slightly varied constituents but of substantially the same operative characteristics. See Findings 4, 8, and 15, R. 159-60. Westinghouse demanded payment of royalties on this new solder. MacGregor refused to pay on the new solder, and at the same time stopped payment of royalties on the solder that had been the basis of the infringement suit, and upon which royalty had been paid for several years. See Findings 7, 8, and 9, R. 159-60.

Westinghouse necessarily brought the present suit on the license contract in the Court of Common Pleas of Allegheny County, Pennsylvania, both parties being

there residents. The sole prayer of the bill is that defendent be required to account for and pay the royalty due under the contract. See Paragraph 15, R. 6. MacGregor, by way of defense, pleads that the two solders above referred to do not come under the patent, that the licensed patent is invalid, and that the contract as a whole is illegal and unenforceable because it contains a clause requiring MacGregor to maintain licensor's prices on the patented solder. He also counterclaims to recover royalties paid "by mistake", and for damages under the Sherman Act. Defendant's Answer, R. 8-16.

The case was tried at law, without a jury, the facts being found specially by request of the parties, The Findings of the trial court appear at R. 157-75, and its Conclusions of Law at R. 175-7. The trial court received all evidence offered by defendant there to limit the scope of the licensed patent, but refused to permit the evidence to be used to attack its validity, on plaintiff's objection that a licensee is estopped under established Pennsylvania law to contest validity of the licensed patent. See R. 62-4. It decided that both defendant's solders above referred to come within the scope of the patent, and therefore under the license agreement. See Conclusions 1 and 2, R. 175, and Opinion, R. 169. It held that the enforceability of the price-maintenance clauses of the contract was immaterial to the case before the court, because no part of the suit is based thereon, and further that even if the price-maintenance clauses were invalid under federal law, they were severable under Pennsylvania law, and would not prevent plaintiff enforcing the other valid provisions of the contract. See Conclusion 10, R. 176. It held that since the patent is presumptively valid, the price fixing clauses are presumptively legal.

See Conclusion 7, R. 176. It found the counterclaim without merit. See Conclusion 12, R. 176. It ordered an accounting to determine the amount of licensed solder that had been made and sold by defendant and upon which accrued royalty had not been paid.

The Supreme Court of Pennsylvania on the first appeal affirmed the findings and conclusions of the trial court in all respects, remanding the case for an accounting. The opinion is reported at 350 Pa. 333, and is printed at R. 235. The subsequent proceedings established a liability of $15,485.96 for unpaid royalties under the contract, and the Pennsylvania Supreme Court affirmed a judgment for that amount. The case comes here on certiorari to the state court on the latter decision, which is based on the law of the first decision.

The patent expired on December 6, 1944, so the contract is now in effect only so far as payment of accrued royalties is concerned.

This case arises solely upon the efforts of petitioner to escape payment of royalty on two of his three types of licensed solder. This he tried to do primarily by asserting that the two types do not come under the licensed patent. Failing in that position, he asserts illegality of the contract as a whole as containing a price-fixing clause, although that clause is not in suit, and had not been respected by petitioner. Petitioner testifying *pro se* at the trial admitted that he regarded the license part of the contract as still in full force and effect as applying to his copper-phosphorus solder (third type), and that he intended to continue to pay royalty on it. See R. 92.

Respondent's Position—Summary of Argument

We respectfully argue that this Court has no jurisdiction, or alternatively, if it has jurisdiction, that it should dismiss the writ on the merits, because

(a) The Pennsylvania courts did not decide any federal question, or deny any right of petitioner provided by federal law. Enforcement of the judgment below does not result in violation of any federal law or right, from any point of view.

See opinion below, R. 240-1

(b) The Pennsylvania courts held that petitioner being a licensee under a patent is estopped, under the law of that state, to attack validity of the licensed patent. Questions of estoppel are matters of general law and where a state court decides a case on estoppel that decision is not reviewable by the Supreme Court unless the result would involve a violation of federal law.

Angier v. Eaton, 98 Pa. 594*
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Adams County v. Burlington R. R., 112 U. S. 123; 5 S.Ct. 77
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Lynch v. New York, 293 U.S. 52; 55 S.Ct. 16
Waters-Pierce v. Texas, 212 U.S. 86; 29 S.Ct. 220

* The cases here cited are discussed in detail in the Appendix below.

(c) The Pennsylvania courts held that the patent is presumptively valid and the price-fixing clauses presumptively legal but that the price-maintenance clauses of the license contract, even if illegal under federal law, are severable, and the remainder of the contract enforceable under established Pennsylvania law. The question of severability of an illegal clause in a contract and enforceability of the remaining clauses is a matter of general law, and the decision of a state court thereon will not be reviewed by the Supreme Court, even though a federal question is avoided by the decision on severability.

Fox v. Muller, 296 U.S. 207; 56 S.Ct. 183
Smith's Appeal, 113 Pa. 579
Monongahela v. Jutte, 210 Pa. 288*

(d) A patent duly issued by the Commissioner of Patents is *prima facie* valid, and a price-maintenance clause under an unadjudicated patent is *prima facie* legal. Consequently, when the state court held the defendant there liable under clauses of the contract calling for payment of royalty, it was justified in refusing to try the issues of validity of the licensed patent, and consequent possible illegality of the price-maintenance clauses under federal law, since no enforcement of the alleged illegal clauses was involved in the state court's decision.

American v. DeGrasse, 157 F.R. 660, 663
Los Angeles v. Aeolian, 143 F.R. 880, 884
U.S. v. General Electric Co., 272 U.S. 476; 47 S.Ct. 192
Bement v. National Harrow Co., 186 U.S. 70; 22 S.Ct. 747

* Digested in the Appendix below.

(e) This Court's decision in *Sola v. Jefferson*, does not establish an absolute federal right of a licensee to attack validity of a patent to escape royalty payment whenever the license contract contains a price-maintenance clause. It establishes that where a price-maintenance clause is in suit, licensee is not estopped to challenge legality of the clause by attacking validity of the licensed patent, and that estoppel to attack validity of a licensed patent may not be used to prevent defense against a clause of a license, enforcement of which would result in violation of a federal law. The Pennsylvania courts carefully considered the Sola case, respected it, and decided the case at bar on grounds that involve no federal question or federal right. They expressly held the price-fixing clauses severable, the remaining clauses enforceable, and therefore the legality of the price clauses moot.

(f) The effect of sustaining petitioner's contention in this case would be a reversal of the established doctrine of *prima facie* validity of patents. It would make possible frauds by licensees, and seriously discourage the granting of licenses under normal conditions and with normal restrictions.

(g) Petitioner had not observed the price-maintenance clauses of the license, and was not required to do so by the judgment below. Although now condemning the license contract as a whole as a scheme to violate law and oppress petitioner, he admitted while testifying *pro se* that he took the license voluntarily, on advice of his present counsel, to avoid an infringement suit then pending. See R. 91-2. He also testified at the trial that on advice of the same counsel he then regarded his license as still in force and effect as applied to any product

covered by the licensed patent. Thus it is clear that petitioner and counsel at the time of taking the license, and during the trial, did not regard the license contract as illegal, and that petitioner still held onto his rights as a licensee under the contract.

Jurisdiction is Lacking

Petitioner invokes jurisdiction under the provisions of 28 U.S.C. 344 (b), Judicial Code 237. As we understand it, this Court's jurisdiction to review the judgment of a state court is statutory and extends only to cases where the decision of a highest state court involves (1) the validity of a treaty or statute of the United States, or (2) the validity of a state statute asserted to be contrary to the constitution, treaties, or laws of the United States, or where (3) "any title, right, privilege, or immunity is specially set up or claimed" under the Constitution, or under federal law. We respectfully submit that the present case does not fall within any of those jurisdictional classes. Petitioner has no absolute *right* provided by federal law to attack validity of a licensed patent in a state court. The state court held him estopped to make that defense in a suit for accrued royalties. His asserted *right* to attack the enforceability of the royalty payment clauses on the defense that the contract as a whole is illegal because of the presence in the contract of a price-maintenance clause did not involve a right under federal law when the state court held that the attacked clauses are severable and their legality and enforceability moot in the case presented to the state court. To support this argument we rely on the cases cited under (b) (c) and (d) above. They are analyzed in the appendix to this brief.

The Cases Cited by Petitioner do not Establish Jurisdiction

In its argument to sustain the jurisdiction of this Court in this case petitioner's brief at page 2 cites seven cases in which this Court has taken up state court decisions by writ of error, or certiorari. None of them seems to us to establish jurisdiction in the present case. For the convenience of the Court, we have analyzed the facts and holdings in the other six of those seven cases, placing the analyses in the appendix to this brief.

Fox v. Muller negatives Jurisdiction

Fox v. Muller, 296 U.S. 207; 56 S. Ct. 183, was brought up on certiorari to the Supreme Court of Minnesota. While this case is cited by petitioner as supporting jurisdiction, we submit that it supports respondent's position that this Court has no jurisdiction in the case at bar. Fox sued Muller in the state court to recover damages for breach of contracts by which Muller was licensed to exhibit certain moving picture films belonging to Fox. Muller (just as does MacGregor in the present case) pleaded invalidity of the contracts as a whole on the ground that they contained an arbitration clause violating the Sherman Act. The trial court held that the arbitration clause violated the Sherman Act and was—

> "so connected with the remainder of the contract that the entire contract is tainted." (Page 208)

It therefore dismissed the complaint.

The state court on appeal said—

> "The question presented on this appeal is whether the arbitration clause is severable from the

contract, leaving the remainder of the contract enforceable. * * *" (Page 209)

It held that the arbitration clause was not severable from the remainder of the contract.

In the United States Supreme Court petitioner to support jurisdiction asserted that a federal question (legality of the arbitration clause) was necessarily involved and decided by the state court. Respondent contended that the question of severability was controlling and that after its adjudication no federal question was determined by the lower court. This Court said—

"* * * the case is controlled by the settled rule that where the judgment of a state court rests upon two grounds, one of which is federal and the other nonfederal in character, our jurisdiction fails if the nonfederal ground is independent of the federal ground and adequate to support the judgment. * * *" (Page 210).

This Court then went on to say that the *question of severability of the alleged illegal arbitration clause was one of general law and that the decision of the state court thereon would not be reviewed in this Court.* The language on this point is as follows (Page 210):

"In that situation, the primary question to be determined by the court below was whether the concededly invalid clause was separable from the other provisions of the contract. The ruling of the state Supreme Court that it was not, is sufficient to conclude the case without regard to the determination, if, in fact, any was made, in respect of the federal question.* *It follows that the nonfederal ground is*

* All emphasis in quotations is added, unless otherwise indicated.

adequate to sustain the judgment. • • • The construction put upon the contract did not constitute a preliminary step which simply had the effect of bringing forward for determination the federal question, *but was a decision which automatically took the federal question out of the case if otherwise it would be there.*"

A Patent is prima facie Valid

That is established law. Petitioner has cited no case to the contrary. We know of none.

"The grant of a patent is presumptive evidence that the patentee is entitled to the monopoly fairly covered by his claims." *American v. De Grasse*, 157 F.R. 660, 663.

"With reference to the suggestion of appellant's counsel as to the presumption arising in favor of the Fleming patent as stated in *Kokomo v. Kitselman*, 189 U.S. 8, 23, it may be briefly stated that *there is in every case a prima facie presumption in favor of the validity of every patent issued by the Patent Office.*"—*Los Angeles v. Aeolian*, 143 F.R. 880, 884.

Price-Fixing under a bona fide Patent License is prima facie Legal

There is nothing illegal *per se*, or presumptively illegal, in having a clause in a license contract requiring licensee to maintain prices established by licensor for its own sales of the patented product. Such clauses have never been held illegal, or presumptively illegal, by any Court, so far as we know, where the clause applied only

to the invention covered by the patent under which a *bona fide* license was granted.

Indeed, as this Court has said, the very nature of the right of exclusion granted by a patent makes it proper that patent owners be allowed to require licensees to maintain licensor's prices for the patented products. MacGregor testified in this case that when he started his business of making copper-phosphorus-tin solder he sold his product at prices 10% or more below the prices at which Westinghouse sold its patented solder. R. 94. He has been the only infringer of the licensed patent. Obviously, Westinghouse could not have afforded to license MacGregor to make the solder covered by its Jones patent, if MacGregor were to be left in position to continue to solicit purchases by customers of Westinghouse, offering his solder, adapted to do the same thing in the same way, at a price 10% lower than the Westinghouse price.

This reasoning is recognized and a price-fixing license was approved by this Court in *United States v. General Electric*, 272 U.S. 476. The following quotation commences at page 489 of the opinion.

> "But the question is a different one which arises when we consider what a patentee who grants a license to one to make and vend the patented article may do in limiting the licensee in the exercise of the right to sell. The patentee may make and grant a license to another to make and use the patented articles but withhold his right to sell them. The licensee in such a case acquires an interest in the articles made. He owns the material of them and may use them. But if he sells them he infringes the right of the patentee, and may be held for damages and enjoined. If

the patentee goes further and licenses the selling of the articles, may he limit the selling by limiting the method of sale and the price? *We think he may do so provided the conditions of sale are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly.* * * * When the patentee licenses another to make and vend and retains the right to continue to make and vend on his own account, *the price at which his licensee will sell will necessarily affect the price at which he can sell his own patented goods. It would seem entirely reasonable that he should say to the licensee, 'Yes, you may make and sell articles under my patent but not so as to destroy the profit that I wish to obtain by making them and selling them myself'.*"

The G. E. decision then cites the case of *Bement v. National Harrow Company*, 186 U.S. 70, in which substantially the same question had arisen. (It is interesting to note that the *Bement* case is cited in the *Sola* case.) This Court said in the *Bement* case:

"The provision in regard to the price at which the licensee would sell the article manufactured under the license was *also an appropriate and reasonable condition.* It tended to keep up the price of the implements manufactured and sold, but that was only recognizing the nature of the property dealt in, and providing for its value so far as possible. This the parties were legally entitled to do. *The owner of a patented article can, of course, charge such price as he may choose, and the owner of a patent may assign it or sell the right to manufacture and sell the article patented upon the condition that the assignee shall charge a certain amount for such article.*"

It is only where a patent license has been used as a subterfuge to cloak a conspiracy the main object of which is illegal price-fixing by agreement, or to extend price-fixing to unpatented things, or to control whole industries by agreement going outside the needs of a patentee to protect his patented invention,—that price-fixing license agreements have been held illegal by this court,—as we understand the cases.

The Sola Case does Not Establish an Absolute Right to Attack Validity of a Licensed Patent

An exception to the established rule that a licensee is estopped to attack validity of the licensed patent, is the subject of *Sola Electric Company v. Jefferson Electric Co.*, 317 U.S. 173: 63 S.Ct. 172, cited and relied on by petitioner in this case.

Petitioner's argument in effect is that since the present license *contains* price-maintenance clauses (Sec. 5 and 6 R. 125), that fact *per se* gives licensee a *right* under federal law to assert invalidity of the patent, thereby to establish illegality of the price-maintenance clause, thereby to establish unenforceability of any part of the contract, thereby to escape payment of the accrued royalties, while retaining immunity from suit for infringement because of the license.

It appears from the several opinions in that case that Jefferson licensed Sola under a patent, that Sola was required to maintain on its licensed products the prices established by Jefferson for its sale of its patented products, and was required to pay royalty. After having operated under the license for some time, Sola refused to

pay royalty on certain of the licensed products and refused to maintain licensor's established prices on those products, because it asserted, the only claims of the patent covering those licensed products had been held invalid by the Sixth Circuit Court of Appeals in *France v. Jefferson*, 106 F. (2d) 605.

Jefferson then sued Sola to recover the royalties withheld, and *also for an injunction restraining Sola from selling the licensed products at prices below those established by the licensor.* The Seventh Circuit Court of Appeals (125 F. (2d) 322) held that Sola was estopped to deny validity of any claim of the licensed patent so long as it remained a licensee under the patent, ordered it to pay the accrued royalties, *and enjoined it from selling any licensed products in violation of the price-maintenance clause of the contract.*

Petitioner argues the Sola decision as broadly giving any licensee sued in any court for unpaid royalties a *right* to attack validity of the licensed patent, if there is a price-maintenance clause in the license agreement, regardless of whether that clause is enforced, or is in litigation, or is severable from the other provision of the contract. We think the *Sola* case goes no further than to give to a licensee the right to challenge the enforceability of a price-maintenance clause by attacking validity of the licensed patent. We think the decision must be interpreted as restricted to the actual case that was before this Court, where *enforcement* of the price-maintenance clause was a major issue in the case, and where the judgment below would result in illegal price control if the patent were invalid.

That the price-fixing clause in the *Sola* case was di-

rectly in issue appears in the first paragraph of this Court's statement of the case:

> "The *question for our decision* is whether a patent licensee, by virtue of his license agreement, is estopped to *challenge a price-fixing clause* in the agreement by showing that the patent is invalid and that the price restriction is accordingly unlawful because not protected by the patent monopoly."

To "challenge a price-fixing clause" necessarily implies to us an attempt to enforce a price-fixing clause. As we read its cases, this Court does not concern itself with challenges that merely raise moot questions. The Sola Company when it appeared here was *under injunction requiring it to observe the price-fixing clause.* Note the last sentence of the second paragraph of the opinion:

> "Respondent sought recovery of unpaid royalties and *also an injunction restraining further sales except in conformity to the terms of the license agreement.*"

In the present case the enforcement of the price-maintenance clause is not in issue. As the state court below said in its opinion at R. 241:

> "In the instant case the plaintiff is not attempting to enjoin the defendant from selling the products he is licensed to sell, at prices less than those charged by the licensor. To grant the relief prayed for here does not result in anything which is interdicted by the Federal Anti-Trust laws. Therefore, the decision in the *Sola* case, *supra,* does not govern the decision of any issue raised in this case."

We believe this Court in the Sola case had no intention to decide broadly that a licensee has an absolute federal right to attack validity of a licensed patent merely

to escape royalty payment,—because a price-restrictive clause is present in the license. To have done so would have been an advisory decision, going beyond the issues of the case before the Court. Such extensions are contrary to the policy of this Court, as we understood its statements on that point.

In *U.S. v. Alaska,* 253 U.S. 113, 40 S. Ct. 448, the Court said at page 116:

> "* * * *it is settled principle in this court that it will determine only actual matters in controversy essential to the decision of the particular case before it.* Where by an act of the parties, or a subsequent law, the existing controversy has come to an end, the case becomes moot and should be treated accordingly. However convenient it might be to have decided the question of the power of the Commission to require the carriers to comply with an order prescribing bills of lading, *this court 'is not empowered to decide moot questions or abstract propositions, or to declare, for the government of future cases, principles or rules of law which cannot affect the result as to the thing in issue in the case before it.'* * * * " Citing *California v. San Pablo & Tulare R. Co.,* 149 U.S. 308, 314.

Economic Effect if Petitioner's Position is Sustained

Petitioner seems to think the Sola decision creates some new personal federal *right* for a patent licensee,—analogous to the right to trial by jury, etc. He treats that decision as thought it were a statute saying in effect: Henceforth it is presumptively illegal to put a price-maintenance clause in a patent license; the penalty

for so doing shall be that licensee while retaining the benefits of the license, (e.g., immunity from suit for infringement), may refuse to pay royalty until licensor establishes validity of the patent by adjudication.

If petitioner's position is right the long established principle of presumptive validity of patents no longer applies where they are included in licenses containing price-maintenance clauses. The economic result of such a change of law would be to encourage infringers confronted with a patent suit to take licenses including price-maintenance clauses, then, having a protecting license in hand, to refuse to pay royalty, on the ground that the contract is illegal because the licensed patent is invalid, etc. Should the Court hold the patent valid in such contract litigation the licensee would have lost merely his cost of litigation, since he could fulfill his contract by paying the judgment for accrued royalty, and would have enjoyed *pendente lite* full protection from the ordinary hazards of an infringement suit. Should the Court hold the patent invalid he would have been protected by the license while he took a free shot at validity of the licensed patent.

We submit that the decision of this Court in the *Sola* case is not capable of the construction petitioner puts upon it, that the law of that case applies only to the facts that were there before the Court, and that the decision should not be extended or interpreted to lay down the broad new principle of law for which petitioner contends. As we read your *Sola* decision, it merely holds that a licensee who was sued to enforce a price-fixing or price-maintenance clause under patent claims (which had been declared invalid by the Sixth Circuit Court of Appeals and were therefore no longer *prima facie* valid)

was not estopped to challenge the legality of the price-fixing clause in suit by asserting that the patent was invalid and therefore the price-fixing clause either illegal or unenforceable.

Aside from the specific facts, and referring to the principle of law enunciated by the *Sola* decision, we submit that it merely declares the federal law to be that estoppel under local (state) law can not screen and protect enforcement of a contract where such enforcement would result in violation of a federal law. Since no such violation is involved in this case by the decision and judgment below, the doctrine of the *Sola* case does not apply to it.

The License Contract was Entered into in Good Faith, and Defendant during the Trial Recognized the License and royalty Payment clauses of the Contract as Separable, Legal, and Effective

MacGregor, testifying *pro se*, and on advice of his present counsel, in effect repudiated any attack on the legality of the contract as a whole and admitted the validity of royalty payment requirements of the license contract, by specifically recognizing his obligation to pay royalty on any solder "properly covered" by the Jones patent. In the same testimony he disclaims any coercion or conspiracy in the inception of the contract. See the trial court's Finding 12 at R. 160. His testimony on these points at R. 91-2 is:

Q. * * * You were sued, were you not?

A. I received a paper served upon me which I construed as meaning I was sued.

Q. And you went to Mr. Jaspert and retained him as your attorney to defend you in that suit?

A. Yes sir.

Q. And acted under his advice in connection with that suit?

A. Yes sir.

Q. And then you took a license in order to settle that suit, to avoid trying the suit?

A. I took a license in settlement of that suit. I will deny it if the question is that I did it to avoid anything.

Q. Anyhow, at that time you preferred to take a license under this patent rather than to try that infringement suit?

A. I ultimately concluded to do that.

Q. And did it?

A. And did it.

Q. Now then, this question will be out of order ordinarily, but there has been an inference cast here, and you took that license entirely voluntarily and without any coercion or threat of any kind, did you not, other than the threat of litigation?

A. I would not mind stating all the factors in my mind—

Q. Just answer the question. *Were you coerced in any way to take that license? Did you have to take it for any reason?*

A. *No, I didn't have to take it.*

Q. *You were confronted with going through with the patent infringement suit or taking the license?*

A. *That's right.*

"Q. You and your counsel decided to take the license, and you did take the license? A. Yes, sir.

"Q. *You still have that license in effect?* A. *That's right.*

"Q. *And if you made any tomorrow, you would pay a royalty under that license?* A. *Yes sir.*

"Q. You regard the license as still in force and effect? A. *I regard the license as still in force and effect under advice from Mr. Jaspert, as applying to the phos-copper alloy alone.*

"Q. *In other words, you regard the license as still in force and effect as covering anything that properly comes under the Jones Patent, do you not?* A. *That properly comes under the Jones Patent, yes, sir.*"

REPLY TO SPECIFIC ARGUMENTS OF PETITIONER

Petitioner's former employment by Westinghouse is immaterial

On page 3 petitioner's brief states that respondent's reference to MacGreger's former employment with the Westinghouse Company is made throughout the proceedings as:—

"* * * a deceptive and illusory expedient employed to divert the Court's attention from the plain fact that the original patent infringement suit was an ingenious scheme to force a license upon petitioner. * * *"

Our answer to this is that we do not base any part of our position upon the fact that petitioner had been an employee of respondent. Admittedly the case in this Court would be the same if petitioner had never been an employee of the Westinghouse Company. As for the original patent infringement suit being an "ingenious scheme to force a license upon petitioner" for the purpose of regulating and controlling petitioner's sale of the licensed solders, that is an utterly unfounded statement. Petitioner was notified of infringement, and when he refused to desist he was sued in the regular way in the United States District Court. That was a simple patent infringement case putting scope and validity of the patent directly in issue. The fact that MacGregor and his present counsel then preferred taking a license to litigating the issues of validity and infringement is now referred to as an ingenious scheme! There is not one word in the record to support this argument. On the contrary, MacGregor testifying *pro se* admitted that he

took the license voluntarily and without coercion, to avoid the patent suit that had been filed. See his testimony at R. 91-2, quoted just above.

The Court Below Carefully Considered and Fully Respected the Sola Decision

Petitioner's brief at the bottom of page 9 intimates that the Supreme Court of Pennsylvania "did not attempt to reconcile" its decision with this Court's opinion in the *Sola* case. That is not correct. The *Sola* case was thoroughly briefed and argued below and the opinion of the Pennsylvania Supreme Court shows clearly that it carefully considered the *Sola* case and fully accepted the law as stated therein. This appears from the opinion below at R. 239-41:

> "In that case the validity of a price-fixing clause in the license agreement was challenged and that challenge could not be adjudicated by the Court until it first determined the validity of the patent, for only a valid patent could stand between that clause and its being adjudged as a violation of the Sherman Act. In that case the suit was to recover royalties withheld and also for an injunction restraining the Sola Company from selling licensed products at prices below those established by the licensor. In the instant case the issue is not whether the price-fixing clause is in violation of the Sherman Act. It is before the court as a matter of defence to a contract for royalties which had accrued. Defendant asserts the right to attack the validity of a patent because the agreement licensing him to make, use and sell that patent (Jones Patent No. 1,651,709) during a certain term contains a price-

fixing clause. We reject, as did the court below, the contention of MacGregor, the defendant, that the presence of a price-fixing clause in a patent-license agreement gives the licensee the right to attack the validity of the patent, regardless of whether the price-fixing clause is involved in the litigation to recover royalties.

"If the Sola case is to be given by the courts the sweeping interpretation the defendant gives it, the validity of every patent in the land would under circumstances akin to those we have here, be subject to *collateral attack* in any court. The Court below aptly said: 'In the instant case the court has not been requested either directly or indirectly to require MacGregor to maintain Westinghouse prices. By his own testimony he has not maintained them. The price-fixing clause is not in issue. It is raised merely as a defense to a suit for accounting and payment of accrued royalties. The legality, the enforceability of the price-fixing clause is a moot question. We therefore do not propose to declare the Jones patent invalid. Whether the price-fixing clause in the license is legal or invalid is not before this Court. It is our judgment that the decision of the Sola case does not control or determine the instant case'."

"It is clear that if the plaintiff was attempting to force the defendant to perform acts which would be violative of Federal laws *unless those acts were legitimatized by being* [fol. 359] *done under the protection of a United States patent*, it would be necessary for the adjudicating court to determine at the outset the validity of the patent whose protection was invoked. An estoppel whose operation will re-

sult in a contravention of Federal Anti-Trust laws is outside the pale of judicial recognition. It follows that when an estoppel is invoked and the opposing party alleges that its application is inconsistent with a Federal law it becomes the duty of the tribunal to determine every fact which is relevant to the issue thus raised. The validity of any "protective" patent invoked by the propounder of the estoppel becomes such a determinative fact." [Italics are the Court's.]

"In the instant case the plaintiff is not attempting to enjoin the defendant from selling the products he is licensed to sell, at prices less than those charged by the licensor. To grant the relief prayed for here does not result in anything which is interdicted by the Federal Anti-Trust laws. Therefore, the decision in the Sola case, supra, does not govern the decision of any issue raised in this case." (R. 239-41)

No Extension of a Patent Monopoly to Unpatented Products is Involved in this Case

At page 9, petitioner's brief states—

"This case is one of that class with which this Court has dealt under the illegal or unlawful extension or use of the patent monopoly. More specifically, it deals with violation of the anti-trust laws by the improper use of patents in fixing and maintaining prices on unpatented articles."

At page 21, of petitioner's brief, this position is extended by the statement that the decision below—

"is in conflict with decisions of this Court holding that a patent is unenforceable unless the owner confines the use of his patent to the monopoly granted thereby."

In this connection petitioner cites the well-known line of decisions of this Court including the *Carbice, Barber Asphalt, O'Donnell, Ethyl Gas, Morton Salt,* and *Mercoid* cases.

We respectfully submit that there is no shade of a shadow of basis for petitioner's argument on this point. There has been no extension or attempted extension of patent monopoly, either directly or indirectly. The Court below has held specifically that the two solders of petitioner upon which royalty is in dispute come within the scope of the patent, and are licensed by the agreement. As we understand it, that is the law of the case and will not be reviewed by this Court.

As to the argument that respondent has used its patent improperly in fixing and maintaining prices on *"unpatented articles"*, that manifestly falls in view of the decision below that all three of MacGregor's solders come under the licensed patent. Petitioner's argument would be pertinent only if the record showed that price control had been extended to articles which were not covered by the patent involved, or if petitioner in order to obtain a license nad been required to agree to price control or other restrictions upon his sale of products not covered by the patent.

The Waiver Telegram has no Effect

At page 11, petitioner's brief quotes a telegram allegedly sent by Westinghouse to MacGregor waiving the price control clauses of the license agreement. As petitioner's brief shows, this telegram is dated after the case below had been tried and submitted. The telegram is not in the record, was not considered by the Court below, and can have no possible proper bearing upon ths case. We take it that this Court will not consider a matter not in the record, and that no inference prejudicial to respondent can be drawn from the telegram referred to, or this argument by petitioner based on it.

Petitioner's Cases on Severability are not Controlling

At page 12, petitioner's brief argues that—

> "It is well settled law that the 'Blue Pencil Rule' may not be applied to contracts violating state or federal statutes in contravention of the public policy of such statute."

It then cites two cases, *Hazelton* v. *Scheckles,* 202 U.S. 71, and *Western Indemnity* v. *Crafts,* 240 F. 1, to support the broad statement above-quoted.

We do not question the law set out in those two cases, but we assume it must be read in the light of the facts of the cases. In both of them the court held that the *whole transaction* had for its object the bringing about of an *illegal,* and in the second case a *felonious result.* We find nothing in either case that holds inseverable a *bona fide* contract having a number of obligations, some of which are legal and some of which are illegal.

In the case at bar there is no evidence that gives a basis even for suspicion that the contract now before the Court was entered into otherwise than in good faith on both sides, with legal objectives in all respects.

While severability *per se* is not an issue here, having been decided as a matter of general law in the state court below, it may be pertinent to point out that the alleged illegal price-maintenance was one of several obligations of MacGregor to Westinghouse. The consideration flowing from the patent owner was the grant of a license to make, use, and sell the patented solder. In return MacGregor was obligated (a) to account for his licensed sales, (b) to pay royalty thereon, (c) to mark his product patented, (d) to maintain licensor's prices. The severability of these four obligations, all provided for the sole benefit of licensor, seems obvious. Any or all of them could have been waived by licensor, at any time, without licensee's consent, without affecting the right and benefit flowing to licensee under the contract.

For the convenience of the Court, we have briefly analyzed the facts and holdings in the *Hazeltine* and *Western Indemnity* cases, cited, in the appendix to this brief.

Validity of the Patent is not an Issue before this Court

At page 13, petitioner's brief states that this Court—

> "has jurisdiction and must necessarily review the question of validity of the Jones patent to determine the issue of legality of the patent license contract."

We do not so understand the province of this Court on this review, assuming that it takes jurisdiction. The primary question before this Court in this case, as we understand it, is whether or not the Pennsylvania Court erred in not allowing petitioner to attack legality of the price-maintenance clauses, and consequently validity of the Jones Patent, as a defense to enforcement of the royalty payment clause of the contract. If this Court should take jurisdiction and should hold that the Pennsylvania courts have misunderstood and misapplied the law as laid down in this Court's decision in the Sola case, and that petitioner has a right to defend on the basis of invalidity of the patent and illegality of the contract as a whole, then we assume that the mandate of this Court will return this case to the Pennsylvania courts for a new trial and decision consistent with the law as here determined. The merits of the case as a whole are not now before this Court, as we understand the law and procedure applicable to it. See *Waters-Pierce Co. v. Texas,* 212 U.S. 86; 29 S.Ct. 220, analyzed in the appendix below.

Petitioner cites no case that supports his position on this point, and we know of none. On the contrary, in the *Sola* case itself there is no indication in the decision of this Court that it considered or decided the issue of validity of the patents involved in the license. We are informed by counsel in that case that this Court expressly declined to consider validity of the patent, although that question was briefed.

The Supreme Court of Pennsylvania indicated that if it found the trial court had erred in not permitting an attack upon validity of the Jones patent, it would have

remanded the case to the lower court for a trial of that issue. See R. 235.

Petitioner's Arguments on Validity of the Patent are Irrelevant Here

Petitioner's brief at pages 13 to 18 argues that the licensed patent is invalid on numerous grounds. We think it superfluous to reply to those arguments, other than to assert that they are unsound, because validity of the patent was not considered below. We assume that if this Court holds the Court below erred in that respect, it will remand the case wth instructions for the trial court to decide that issue.

In addition to the legal presumption of validity of any patent, there are in this record facts strengthening that presumption. For example, MacGregor admitted the utility and novelty of the patented solder. The trial court found:

> "26. MacGregor in his testimony, although claiming to have been familiar with the practical art since 1914, admitted the usefulness of the Jones solder, that he knew of no such solder in the prior art before the Jones Solder, and that he learned of it during his employment at Westinghouse." (R. 162)

It also appears in the record that MacGregor was the only competitor who infringed the Jones patent. In view of the undisputed advantages of the patented solder, as set forth in its specification, that show of respect for the patent adds to its presumptive validity.

The arguments of petitioner that the patent is invalid on its face, for abandonment, indefiniteness, etc.,

are unsound. The patent describes and claims a patentable invention, and we have no doubt of its validity over any of the attacks petitioner seeks to make here. We state our position on validity, not by way of argument on the merits of that issue, because we believe it is not now before this Court for decision, but lest petitioner be permitted to say that his arguments of invalidity are not contradicted.

The Katzinger Case is not Controlling

Chicago v. *Katzinger,* 139 F. (2d) 291, is cited by petitioner's brief at page 19 as authority for his construction of this Court's decision in the *Sola* case.* In so far as that construction supports petitioner our argument is that the Katzinger case is bad law. Aside from that, however, it is not controlling here.

In the first place, this Court now has before it a decision of a state court which has held that no federal question need be decided by it, and it has expressly refrained from deciding the question of legality of the price-fixing clauses, and the validity of the licensed patent. It held that the price-fixing clauses were *severable,* not in suit, and consequently their legality moot. It did not have to pass on any federal law or any right or privilege arising under federal law.

In the *Katzinger* case the court specifically said (Page 293, Second Column) with reference to the price-fixing clause:

> "This was not a separable provision of the agreement."

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* For a construction below consistent with our interpretation, see *Nachman v. Kay,* 139 F. (2) 781 (C.C.A. 2).

That constitutes a clear line of demarcation between the *Katzinger* case and the case now before the court. The Seventh Circuit Court of Appeals in the Katzinger case took the position that a price-fixing clause in a patent contract is *prima facie* illegal. It goes so far as to say of such a clause,—

> "The vice lay in its incorporation in the contract at all."

We respectfuly submit that such a statement is directly contrary to the holding of this Court in the *United States* v. *General Electric* case, *supra,* and others, and that there is no justification for such an attitude towards a *bona fide* price-maintenance clause in a patent license. If such clauses in patent licenses are to be made presumptively invalid, that should be by act of Congress, and not by judicial fiat of the Seventh Circuit Court of Appeals.

Petitioner was not Required to Maintain Resale Prices

The trial court, affirmed in all respects on appeal, made this finding:

> "30. MacGregor was never required under the license contract or otherwise to fix resale prices on licensed solder sold by him." (R. 163)

Petitioner in spite of Findings 28 to 30 of the trial court directly to the contrary, still argues in his brief (page 28) that Westinghouse required MacGregor to fix resale prices of his licensed solder. By "resale" we mean in this case a second sale of the same licensed solder. Fixing of resale prices even of patented articles is admittedly contrary to federal law, with certain statutory exceptions.

If MacGregor fixed the resale prices of his licensed solders at any time, it was because he chose to do so for his own purpose, —not because the existing contract or plaintiff required it. Petitioner's assertion here is based on Defendant's Exhibit L and the attached Distributor and User price schedules, offered at R. 48, printed at R. 148. Seastone testified *as a witness for petitioner* that these schedules did not require fixing of resale prices, that in discusing those schedules that question was raised, and thereupon MacGregor was told that his resale prices could not be controlled. See R. 44-7.

Furthermore, Plaintiff's Exhibits 3 and 4, offered at R. 47, printed at R. 127-9, show that pursuant to that discussion, MacGregor was not only advised by his own counsel that to do so would be illegal, but was *also notified in writing by Westinghouse, that there was no requirement that he fix resale prices, and that there never had been any intention to do so.*

The trial court found the facts as above stated. See Finding 28-30, at R. 162-3. We think the matter is not in issue here and we refer to it only lest it be thought to be a sore spot that we wish to avoid.

CONCLUSION

There Is No Equity in Petitioner's Position.

This case is interesting as presenting some nice law points, but on the facts and equities, reduced to its lowest terms, it is merely the attempt of MacGregor to avoid paying a just debt. He started making the Westinghouse patented solder immediately after leaving that Company. Promptly sued for infringement, he

could have contested the validity of the patent which he now says is invalid on its face. With the advice of his present counsel he elected to take the license here involved to avoid defending the infringement suit. For four years he paid royalty. By his own testimony, and by the findings of the Court below, he did not respect the price-fixing clauses of the license. Then when royalty was demanded on a new solder which he put out, MacGregor refused to pay anything, but still retained the immunity of the license. The present suit was necessarily brought in the state court since the only dispute between the parties was payment of accrued royalties. Petitioner first moved to dismiss on the ground that the state court could not adjudicate the scope of a patent. That motion was denied. He then filed a declaratory judgment suit in the same federal court where he had been sued as an infringer, asking that the patent be declared invalid and not infringed, and for damages under the Sherman Act. That complaint was dismissed by the district court and the Third Circuit Court of Appeals (53 U.S.P.Q. 472 and 55 U.S.P.Q. 495) on the ground that having a license he could not be sued as an infringer, and that the state court had acquired jurisdiction. He then tried his case in the court below primarily on the assertion that two of his three solders did not come under the patent, and therefore no royalty was payable thereon. As to one of his solders, he admitted that it came under the patent, and during the trial he specifically admitted that he, on advice of his present counsel, regarded the license as still in full force and effect as applied to that solder, and stated that he would continue to pay royalty thereon if he made any more of it. He had paid royalty on that solder long after refusing to pay on the other two solders. See Finding

10, R. 160. As an alternative defense he alleged that the entire license agreement was an illegal scheme to control prices, ignoring the fact that he was a party to the contract, and that he still claimed it to be in effect to protect him in the making of any solder which properly came under the patent. Having heretofore lost in every court on every issue, he comes to this Court arguing about Anti-trust laws and "ingenious schemes to violate federal law", in spite of the fact that by his own testimony he took the license without coercion, on advice of present counsel, and that he has not observed the price-fixing clauses.

Petitioner's case has no tinge of merit from the point of view of equity and justice between these parties.

Respectfully submitted by

JO. BAILY BROWN,
Attorney for Respondent.

January 25, 1946.

APPENDIX

In the following pages we digest some of the cases cited in our argument, and also some of those cited by petitioner. The cases here discussed are listed in order in the index at the front of the brief, with page references showing where they are discussed in this appendix.

Respondent's Cases

Adams County v. Burlington Railroad, 112 U.S. 123, 5 S.Ct. 77, came up on writ of error to the Supreme Court of Iowa. The matter in controversy was title to some land claimed by Adams County and also by the railroad. Adams County claimed title under the Federal Swamp-Land Act and the railroad claimed title under the Iowa Land-Grant Acts.

The facts and procedure are somewhat involved, but the essential point, as we understand it, is that the state court held for the railroad on the ground that Adams County was *estopped* to deny the Burlington title to the land, even if by the federal statutes its title would otherwise have been good. The opinion of this Court said at page 80 of S.Ct.:

> "This of itself implies that there was in fact no decision against any right, title, privilege, or immunity claimed under the constitution or laws of the United States, and that the decree rested alone on the *defense of estoppel, which was broad enough to control the rights of the parties without disposing of the federal question which it was attempted to raise.* In other words, it was adjudged by the state court that the title of the company must prevail in this suit because the county was precluded by its conduct from insisting to the contrary. • • • It

follows that we have no jurisdiction, and the motion to dismiss is granted."

Eustis v. Bolles, 150 U.S. 361; 14 S.Ct. 131 came up on writ of error to the Supreme Court of Massachusetts. Bolles became insolvent. He made various payments upon account of debts, some of which were made to Eustis who accepted and receipted for them. Thereafter a law was passed which terminated the debtor's liability under such circumstances. Eustis sued to recover the balance due on the ground that the law was contrary to the federal Constitution. The state court held that Eustis was *estopped* to raise the federal question, or to seek further payment because of his having accepted payments on account in composition of the entire debt. The state court also appears to have held that acceptance of partial payment after its passage constituted a waiver of any right to attack the statute.

This Court discussed the pertinent law and held that where a state court disposes of a case on non-federal grounds such as *estoppel,* even though a federal question might otherwise have been involved, the Supreme Court has no jurisdiction. On this point, the Court said at page 132 of S.Ct.:

> "It is settled law that, to give this court jurisdiction of a writ of error to a state court, it must appear, affirmatively, not only that a federal question was presented for decision by the state court, but that its decision was necessary to the determination of the cause, and that it was actually decided adversely to the party claiming a right under the federal laws or constitution, or that the judgment, as rendered, could not have been given without deciding it. (Citing cases)

"It is likewise settled law that, where the record discloses that if a question has been raised and decided adversely to a party claiming the benefit of a provision of the Constitution or laws of the United States, another question, not federal, has been also raised and decided against such party, and the decision of the latter question is sufficient, notwithstanding the federal question, to sustain the judgment, this court will not review the judgment."

Gillis v. Stinchfield, 159, U.S. 658; 16 S.Ct. 131, came up on writ of error to the Supreme Court of California. The state court held that the holder of a mining claim had no right under federal statutes covering such situations to mine gold at the intersection of two veins because the plaintiff was *estopped* by a deed previously made by him by which Gillis had sold the land covering the intersection of the veins to Stinchfield. After that sale Gillis located a claim covering one of the veins, and later Stinchfield located the other vein on the ground he had purchased, which also covered the intersection of the two veins. Gillis entered upon the ground that he had sold to Stinchfield and sought to mine gold in the intersection, claiming right to do so under federal statutes applicable to such circumstances. The California Court held that the deed controlled and that Gillis was estopped to apply the pertinent federal law.

This court held it had no jurisdiction because the decision of the California Court was based upon estoppel. Gillis brought writ of error to this Court on the ground that the federal statutes gave him a right to the gold in the intersection. This Court disposed of the case by saying (page 132 of S.Ct.):

"But the decision of the [California] supreme court was clearly based upon the *estoppel* deemed by that court to operate against plaintiffs in error *upon general principles of law* and the statute of California in respect of such a conveyance as that to Stinchfield, *irrespective of any federal question.* And this was an independent ground, broad enough to maintain the judgment. The writ of error must therefore be dismissed."

Rutland v. Central Vermont Railway Co., 159 U.S. 630; 16 S.Ct. 113, came up on writ of error to a Vermont state court. It involved the respective obligations of the lessor and lessee of a railroad to pay the state taxes. The state court held that the lessor could not recover taxes paid by it even though the lessee should have paid them under federal law, because the lessor was guilty of *laches* in asserting his claim. It also held that under the federal law the lessor could not recover.

This court dismissed the writ for lack of jurisdiction stating that the decision of the nonfederal questions were broad enough to support the judgment (page 116 of S.Ct.):—

"without regard to the question whether the provision of the statute under which the Central Vermont Company paid the taxes and deducted them from the rent, was or was not constitutional.

"Such being the case, the conclusion is inevitable that this Court has no jurisdiction to review the decision of the state court.

"It is well settled, by a long series of decisions of this Court, that where a highest court of a state, in rendering judgment, decides a federal question and also decides against the plaintiff in error upon

an independent ground, not involving a federal question, and broad enough to support the judgment, the writ of error will be dismissed, without considering the federal question." (Citing many cases)

Pittsburg v. Cleveland, 178 U.S. 270; 20 S.Ct. 931, came up by writ of error to the Supreme Court of Michigan. The questions involved below were property rights in the bed of a lake which had been drained. Plaintiff asserted that the controversy involved the construction and effect of federal land grant patents. The state court held that plaintiff could not recover even though under the federal law he might have had good title, because the parties had a contract for the draining of the lake covering the ground in question and that by the terms of this contract and the operation thereunder *plaintiff was estopped* to assert the title in controversy, and further that plaintiff was estopped by *laches.* It also held that plaintiff *being a tenant of a portion of the premises in dispute was estopped to deny defendant's title.* The state courts dismissed the complaint, and plaintiff brought writ of error to this Court, which affirmed the state courts. In reaching its decision this Court held that it would not go into the federal questions that might otherwise have been involved because the state court had disposed of the case on nonfederal grounds, viz; estoppel and laches. This appears from the following extracts from the opinion at page 935 of S.Ct.:

"It is manifest that the [state] Supreme Court rested its decision on the grounds (1) that the pumping contract was a settlement of boundaries between the contestants; (2) that what was done and expended under it worked an *estoppel* against the plaintiff; (3) *laches* of the plaintiff, in asserting

its claim whereby the *status quo* could not be restored."

"It requires no argument to demonstrate that neither of these grounds involve a Federal question. But plaintiff in error contends that they were all made to depend upon a Federal question, which the court erroneously decided, and therefore that they necessarily involve such question.

"It is claimed to arise under conflicting claims under United States patents * * *"

"But again, and whatever the error in that conclusion (we do not asert there was any), the court decided, as an independent ground of estoppel, that plaintiff was guilty of *laches*, and that was sufficient to sustain its judgment.

"The case must therefore be dismissed for want of jurisdiction."

Speed v. McCarthy, 181 U.S. 269; 21 S. Ct. 613, came up on writ or error to a state court of South Dakota. The case involved adverse claims to mining property. Plaintiffs in error contended that their title arose under statutes of the United States, relating to the patenting of mining claims under federal law. The state court held that defendants below could not deny the validity of plaintiff's locations because of *estoppel*.

This Court said at page 615 S.Ct.:

"And whether a party is estopped or not is not a Federal question."

This Court further said at page 616:

"The state court thus disposed of this branch of the case upon *general principles of law*, and its decision did not rest on the disposition of a Federal question."

After stating the alleged federal rights involved, this Court said at page 616:

"We think these general allegations fall short of that definite claim of a right or title under a statute of the United States, which Sec. 709 requires; and that, as the record stands, *this court would not be justified in holding that the state court denied a right or title specially set up as secured by the statute, when it determined this particular question on the general principles of law recognized as prevailing in South Dakota.*"

Lynch v. People of New York, 293 U.S. 52; 55 S. Ct. 16, came up on certiorari to the Supreme Court of New York. The state Tax Commission had levied income tax upon petitioner's property located in the State of Ohio. The New York courts while citing cases referring to constitutional points did not rest their decisions upon the Constitution, but held the tax proper under the state law.

The Court held that it had no jurisdiction because the decision was based on nonfederal grounds. This Court said at page 54-5:

"It is essential to the jurisdiction of this Court in reviewing a decision of a court of a state that it must appear affirmatively from the record, not only that a federal question was presented for decision to the highest court of the state having jurisdiction but that its decision of the federal question was necessary to the determination of the cause, and that it was actually decided or that the judgment as rendered could not have been given without deciding it. (Citing many cases)

"Where the judgment of the state court rests on two grounds, one involving a federal question

and the other not, or if it does not appear upon which of two grounds the judgment was based, and the ground independent of a federal question is sufficient in itself to sustain it, this Court will not take jurisdiction." (Citing many cases)

Waters-Pierce v. State of Texas, 212 U.S. 86; 29 S.Ct. 220 came up on writ of error to the Supreme Court of Texas. The Waters-Pierce Oil Company was sued by the State of Texas, or a county thereof, to forfeit its charter and to assess penalties for violation of state anti-trust laws. The Company was held guilty by a jury, was fined, and its permit to do business in the state was cancelled. The Company sought to have the case reviewed here on the ground that its constitutional rights had been violated.

In reviewing the decision of the Texas Court, this Court made the following statement at page 221 S.Ct.:

"The jurisdiction of this court to review the proceedings of the state courts, as we have had frequent occasion to declare, is not that of a general reviewing court in error, but is limited to the specific instances of denials of federal rights, whether those pertaining to the constitutionality of federal or state statutes, or to certain rights, immunities, and privileges of federal origin, specially set up in the state court, and denied by the rulings and judgment of that court. U.S. Rev. Stat. Sec. 709, U.S. Comp. Stat. 1901, p. 575. Nor does this court sit to review the finding of facts made in the state court, but accepts the findings of the court of the state upon matters of fact as conclusive, and is confined to a review of questions of federal law within the jurisdiction conferred upon this court."

Monongahela, etc. Co. v. Jutte, 210 Pa. 288, involved an agreement by which in consideration of one million dollars the owner of coal lands, coal mines and coal boats sold the same and covenanted not to engage directly or indirectly

> "in the business of mining, marketing or shipping of coal in the territory traversed by the Monongahela, Ohio and Mississippi rivers and their tributaries for a period of ten years from the date hereof,"—

The above contract, insofar as it affected business carried on outside of the limits of Pennsylvania, violated the Federal Anti-Trust Act. *The contract, however, was held divisible* and the seller enjoined from engaging in the business of mining coal and marketing or shipping coal on the Monongahela river within the state of Pennsylvania for the period of ten years. The court stated:

> "We are of opinion that this contract is in direct restraint of interstate commerce, not only under the *Northern Securities* decision already cited, but under other decisions of the same court cited in the opinion in that case, not that we think, in view of the purpose of this contract and the limited territory and time covered by it, the restriction is unreasonable, but because the United States statute as interpreted by the United States court so declares." (p. 306) * * *
>
> "It is contended, however, by the defendant, that the stipulation is *divisible*, and that even if it is void as applied to the largest extent of territory described, it is not invalid as to parts of it. *There is no question that such contracts are divisible, and that one part or stipulation thereof may be void*

while the other is not: Oregon Steam Navigation Co. v. Winsor, 87 U. S. 74." (p. 307) * * *

"It is argued, that the court itself must on a mere inspection of the agreement be able to separate the good from the bad. This, as the court below demonstrates, is not an exact statement of the rule nor the correct rule as held in *Smith's Appeal,* 113 Pa. 579, and 1 *Parsons on Contracts,* 457: 'Where one gives a good consideration and thereupon another promise to do two things, one legal and the other illegal he shall be held to do that which is legal unless the two cannot be separated.' The defendant, in consideration of the purchase money, covenanted not to engage directly or indirectly in the business of mining, marketing or shipping coal in the territory traversed by the Monongahela, Ohio and Mississippi rivers and their tributaries for the period of ten years * * *. This contract so far as it restrained defendant from mining and shipping coal in Pennsylvania is good; so far as it tended to restrain him from carrying on interstate commerce it is bad and cannot be enforced. We have found no authority, nor has appellant pointed us to one, which holds that if a contract be illegal and not on its face severable the whole contract is void. We think the true rule to be, that if any part of an illegal consideration be not divisible the contract falls. Here the consideration for defendant's promise was $1,000,000; his covenant was not to mine and ship on these rivers; the law steps in and severs the contract by declaring it is unlawful as concerns two of those rivers but lawful as to the third; why is not this a severance of the good part from the bad as much so as if he had specified that for a distinct part of

the consideration he covenanted not to mine and ship on the Monongahela in Pennsylvania, and for another and distinct part of the consideration he covenanted not to mine and ship on the Ohio and Mississippi?" (pp. 308-9.)

Petitioner's Cases

Hazelton v. Sheckles, 202 U.S. 71; 26 S.Ct. 567, cited by petitioner on the point of inseverability of illegal clauses involved a contract under which Scheckles gave Hazelton an option upon certain property at a price of $9,000. The case shows that the main consideration for the giving of the option was that Hazelton was to influence members of Congress to bring about purchase of the land by the Government. He did succeed in having the United States buy the land for some $14,000, and then sought to enforce his option to buy it at $9,000, thus making a profit of $5,000. The Court refused to enforce the option on the ground that the whole transaction was opposed to public policy, in that the consideration to Scheckles for giving the option was the improper influencing of members of Congress by Hazelton.

Western Indemnity Co. v. Crafts, 240 F. (1) is cited by petitioner's brief at page 12, in the argument that the price restrictive clauses of the present license are not severable because the alleged illegality taints the whole transaction.

The case involved a contract whereby a surety company undertook to indemnify a state official from loss resulting from that official depositing public funds contrary to law. This appears from the opinion at page 7, where the Court said—

"Upon the facts admitted by the demurrer to the present petition, it can not reasonably be doubted that, when the indemnity contract in issue was executed and delivered, all the parties named in the instrument knew it was an essential step in a design to induce the treasurer of the state of Ohio to deposit moneys of the state with the Euclid Company, and obviously the parties were chargeable with notice of the statute which denounced such an act of the treasurer as a felony."

We think it requires no extended argument to differentiate such a case from the one at bar. The Western case is similar to the Hazelton case in that the whole object of the transaction involved was to bring about a result that inevitably involved breach of federal law, and in the latter case involved felony.

Palmer v. Brown, 297 U.S. 227; 56 S.Ct. 450, was taken up by certiorari because the state court was confronted with a conflict of interpretation of the Federal Bankruptcy Act in the United States Courts of Appeals of the 2nd and 8th Circuit. The state court followed the 2nd Circuit, and in doing so necessarily had to interpret a federal statute. This appears in the opinion of this court at page 228:

"The question for our determination is the construction to be given to section 60a and section 60b of the [Federal] Bankruptcy Act."

Obviously a federal question was directly and unavoidably involved in the application of federal law by the state court.

Minnie v. Port Huron, 295 U.S. 647; 55 S.Ct. 884, was brought up on certiorari to the Supreme Court of

Michigan. Petitioner, while at work on the deck of a ship, lying in navigable water, was knocked off by a swinging hoist, falling upon the wharf. He sued for compensation under the state law, assuming the injury occurred on the wharf and therefore came under state law. His employer contended that because the injury originated on a ship, lying in navigable waters, the federal maritime law governed the case. That asserted right under federal law was denied by the state court. The case came up because of this conflict of applicable law, and it was held that the federal maritime law applied.

Noble v. Oklahoma, 297 U.S. 481; 56 S.Ct. 562, came up on certiorari to the Supreme Court of Oklahoma. It involved title to lands that had belonged to Indian tribes. The state court in deciding the case had necessarily construed federal laws relating to Indian lands, the federal law establishing Oklahoma Territory, and the federal law relating to transfer of Indian lands for railroad rights of way. The decision of the state court therefore involved not only interpretation and application of federal statutes, but directly involved rights claimed under the federal statues relating to Indian lands.

Gilvary v. Cuyahoga, 292 U.S. 57; 54 S.Ct. 573, brought to this Court by certiorari to the Supreme Court of Ohio, was a personal injury case. A switchman was injured on a train being operated in intra-state commerce, which did not comply with the federal Safety Appliance Acts (45 USCA, Sec. 1). The Supreme Court of Ohio held that plaintiff could not recover because the case was governed by the Ohio Workmen's Compensation Act, under which the facts of the case did not render defendant liable. Plaintiff maintained that the federal

Safety Appliance Acts, and the Federal Employers' Liability Act (45 USCA Secs. 51-59) applied, and that under those Acts the railroad was liable. Rights claimed under federal statute were necessarily involved and this Court had jurisdiction.

Penn v. Commonwealth of Pennsylvania, 294 U.S. 189; 55 S.Ct. 386, was brought up on certiorari to the Supreme Court of Pennsylvania. A corporation was thrown into concurrent receiverships in both the state and federal courts of Pennsylvania. The Supreme Court of Pennsylvania held that the state court under the facts of the case had exclusive jurisdiction. Apparently the federal court had first acquired jurisdiction, and the question raised by the petition for certiorari was whether in view of the prior pendency of the case in the federal court the state court had jurisdiction to enter the final decree involved. The court says at page 194:

> "The state court and the federal court have thus reached an impasse; each asserts the right to exercise its jurisdiction with respect to substantially the same subject-matter, * * * each asserts its authority to enjoin interference, * * * and each is unable to perform its function without acquiring possession and control of the property."

Vulcan v. Maytag, 293 U.S. 553; S.Ct. 347, does not appear to have any bearing upon the case at bar since the citation merely notes the allowance of a writ of certiorari to a state court, without any indication as to what the issues were or the reasons for allowance of the writ. We find no decision identified by this citation, or pursuant to allowance of the writ, which was later dismissed at petitioner's cost. See 294 U.S. 734.